

**BOARD OF ASSESSMENT APPEALS,
STATE OF COLORADO**

1313 Sherman Street, Room 315
Denver, Colorado 80203

Docket No.: 58101

Petitioner:

NABORS DRILLING USA LP,

v.

Respondent:

MESA COUNTY BOARD OF EQUALIZATION.

AMENDED ORDER

THIS MATTER was heard by the Board of Assessment Appeals on February 5 and 6, 2013, Diane M. DeVries and Gregg Near presiding. Petitioner was represented by Alan Poe, Esq. Respondent was represented by David Frankel, Esq. Petitioner is protesting the 2011 actual value of the subject property.

The subject property consists of different types of drilling rigs used in oil and gas service. The property is described as follows:

| Mesa County Schedule Number | Drill Rig Number |
|------------------------------------|-------------------------|
| P014874 | 926 |
| P014949 | 408 |
| P014952 | 907 |
| P014953 | 903 |
| P015288 | 513 |
| P015289 | 574 |
| P015290 | 576 |
| P015292 | M-13 |
| P015293 | M-37 |

Out of nine drilling rigs that are subject to this appeal, five rigs, specifically rig numbers 408, 513, 903, 907 and 926, were located in Mesa County throughout the valuation year. The remaining four rigs numbered as 574, 576, M-13, and M-37, traveled between Mesa and Garfield Counties during the valuation year. The parties agreed that the actual value of the four traveling drilling rigs

should be allocated between Mesa County and Garfield County based on the number of days each rig spent in either county:

- 574 (Mesa County 162 days; Garfield County 203 days)
- 576 (Mesa County 97 days; Garfield County 268 days)
- M-13 (Mesa County 6 days; Garfield County 359 days)
- M-37 (Mesa County 277 days; Garfield County 88 days)

Petitioner's witness, Mr. Jose Cadena, Vice President-Tax for Nabors Corporate Services ("Nabors"), testified as to the company's background; the types of drill rigs under consideration in this case; and the processes involved in dealing with taxing authorities ranging from counties in Colorado to locations throughout the world. Mr. Cadena also stated that reliance upon the cost approach in valuing the rigs resulted in the maximum value. In his experience, there were sufficient transactions available to develop a market approach. He testified to having been selling rigs to others since 2006, including some sales in 2010, within the valuation period. Mr. Cadena indicated that he has been using the services of Hadco International ("Hadco") to provide an annual appraisal of the US rig fleet since 2006.

Petitioner's witness, Mr. Duke W. Coon, a Certified General Appraiser and Vice President of Hadco, presented a summary report in a restricted use format for each of the subject drilling rigs. Mr. Coon stated that his company annually appraises between 300 to 350 drill rigs for Nabors and additional 100 to 150 for other parties. Mr. Coon co-publishes an equipment newsletter, "The Oilfield Appraiser." The newsletter is provided to some 3,000 to 4,000 subscribers, including taxing authorities, lenders and other operators. Mr. Coon also testified that Hadco had provided assistance to the State of Colorado several years ago in the development of the Market Value Schedule currently used by the State to value stationary mechanical drills that were common more than a decade ago. He also stated this type of drill represented 20% of Nabors' fleet in 2011.

The drill rigs under consideration vary in type and design. Mr. Coon classified the pertinent features of each of the units based upon the rig's type (mechanical or electrical); the condition (a range from excellent to fair); the horsepower rating and the depth the rig is designed to drill.

Mr. Coon then applied a market approach to value rigs 513, 926, 574, 576, M-13, and M-37. A full-time employee is retained by Hadco to track and verify the approximate 150 rig sales that occur each year. Based upon the field inspection by a Hadco employee and analysis of the capital expenditures required for each rig, Mr. Coon concluded to a condition rating ranging from fair to excellent. Using a chart developed within the equipment newsletter, Mr. Coon then applied the condition rating to the depth rating and related these factors to the transactions that occurred within the valuation period. As the equipment was valued at the end of each year for tax purposes, the data was applied to the sales that occurred in the fourth quarter of 2010. The value adopted from the equipment newsletter for each of the rigs was then cross-referenced with somewhere between three to six other reported individual rig sales for bracketing.

Mr. Coon did not apply a market approach to rigs 408, 903 and 907. These rigs were rated as fair/poor or salvage. Mr. Coon simply provided a value opinion for each of those three rigs.

Mr. Coon did not apply either an income or cost approach to value the subject property.

Petitioner presented the following opinions of value:

| Drill Rig Number | Value |
|-------------------------|--------------|
| 926 | \$2,950,000 |
| 408 | \$525,000 |
| 907 | \$180,000 |
| 903 | \$525,000 |
| 513 | \$1,200,000 |
| 574 | \$6,150,000 |
| 576 | \$6,150,000 |
| M13 | \$6,150,000 |
| M37 | \$7,350,000 |

Respondent separated the subject rigs into “conventional” and “high-tech” drilling rigs. For conventional rigs, Respondent presented the following opinions of value:

| Drill Rig Number | Value |
|-------------------------|--------------|
| 926 | \$3,522,380 |
| 408 | \$660,340 |
| 907 | \$123,220 |
| 903 | \$660,340 |
| 513 | \$1,585,060 |

For high-tech rigs, Respondent presented the following opinions of value:

| Drill Rig Number | Value |
|-------------------------|--------------|
| 574 | \$9,030,080 |
| 576 | \$9,752,460 |
| M-13 | \$13,055,070 |
| M-37 | \$12,069,990 |

Respondent’s witness, Matthew A. Kramer, a Certified General Appraiser, testified regarding the appropriate classifications of the types of drilling rigs. Rigs classified as conventional were valued by use of the 2011 Market Valuation Depth Schedule. The cost of drill pipes and drill collars was added where appropriate and this value was then “rolled back” to the valuation date according to the factor provided by the Division of Property Taxation. Mr. Kramer indicated that he was not granted access to physically inspect the rigs and was forced to apply the condition of the rigs as provided by Petitioner.

For the high-tech rigs, Mr. Kramer relied upon the cost approach and the original acquisition cost as indicated by Petitioner. The original installed cost was adjusted for time of acquisition by the use of a cost table; addition of drill pipe; collars and a roll back to the valuation date.

Mr. Kramer did not apply either an income approach or a sales comparison approach to value the subject. He stated that he considered the approaches but the lack of verifiable information of drill rig sales limited reliability of the approaches.

Petitioner contended that Mr. Coon's experience, expertise and reputation provided the best support for Petitioner's value claims. Petitioner pointed out that Mr. Coon's professional input was relied upon by the State of Colorado as well as other similar entities world-wide. Per Petitioner, Colorado's own 2011 Market Valuation Depth Schedule, utilized by Respondent, was the work of Mr. Coon. Petitioner pointed out that 80% of the current rigs were the high-tech type and, as such, they were specifically excluded from the Market Valuation Depth Schedule. According to Petitioner, the availability of comparable rig sales in the open market required the Board to consider more than the cost approach. Petitioner contended that Respondent's reliance upon the straight line method of depreciation ignored significant capitalization expenditures. Petitioner also faulted Mr. Kramer's reliance upon the cost approach as failing to properly apply an adjustment for economic obsolescence, resulting from a downturn in the level of rig utilization from 2008 to 2010. Petitioner's appraiser reported approximately 150 yearly rig sales indicating that the sales comparison approach should be applied.

Respondent contended that Petitioner has provided only a mass appraisal. Mr. Coon, the primary appraiser, did not personally inspect any of the drilling rigs and did not personally confirm the comparable sales. Respondent suggested that the research conducted to satisfy Nabor's audit requirements was insufficient for the site-specific analysis required for the purposes of this hearing. Respondent also questioned Mr. Coon's comparable sales because the data submitted was incomplete and there was no outside verification of the transactions. Respondent also disputed the use of transactions without any indication of terms of the sale or the motivation of the buyer and seller. Respondent questioned Petitioner's appraiser for the use of auction sales as justification for his opinions of market value. Overall, Respondent was not satisfied with Petitioner's lack of transparency and reliance upon a "trust me" approach.

The Board was not persuaded by the testimony of Mr. Coon. The Board recognizes the significant service provided by Mr. Coon and Hadco to the Colorado Department of Property Taxation, but finds there is insufficient support provided by Petitioner's appraisals. The Board is not compelled by the sale comparison analysis presented by Mr. Coon because first, the sales data provided was insufficient to allow verification by another party, and second, because the information itself was not sufficient to convince the Board. The Board notes the reliance upon "The Oilfield Newsletter" but questions the appraiser's approach. Mr. Coon testified to 150 rig sales, more or less, that occur per year. These sales are spread over nine different depth ratings and four different quality ratings. The 150 sales are reported on a quarterly basis thus requiring at least 144 (9 depth ratings X 4 quality ratings X 4 quarters) sales to populate each individual classification with only one applicable sale per quarter. Mr. Coon relies only upon the information in the fourth quarter and relates between three to six sales in his reports that all occurred during that single quarter. Without making an unjustifiable assumption that majority, if not all, of the relevant sales disproportionately occurred in the last quarter of 2010, the Board cannot accept this information as reasonably reflecting a sales comparison approach to value.

Also, the Board is not satisfied with the position of Petitioner's appraiser in rejecting the cost approach outright. Sufficient evidence of actual installed costs was presented and, with known capital expenditures for each rig, a supportable cost approach, without blind reliance upon a straight line schedule, should certainly be within an adequate and reasoned value opinion.

Respondent concluded to lower value opinions than the Mesa County Board of Equalization's previously assigned values for the following rigs:

| Drill Rig Number | Assigned Value | Modified Value |
|-------------------------|-----------------------|-----------------------|
| 926 | \$3,772,780 | \$3,522,380 |
| 408 | \$910,740 | \$660,340 |
| 907 | \$277,920 | \$123,220 |
| 903 | \$910,740 | \$660,340 |
| 513 | \$1,835,460 | \$1,585,060 |

ORDER:

The petition is granted in part and denied in part.

The Board accepts the County Board of Equalizations' values previously established for the following rigs:

| Drill Rig Number | Mesa Value | Garfield Value |
|-------------------------|-------------------|-----------------------|
| 574 | \$3,732,520 | \$4,626,070 |
| 576 | \$2,537,970 | \$6,970,100 |
| M-13 | \$201,980 | \$11,287,090 |
| M-37 | \$9,854,680 | \$2,772,150 |

Respondent is ordered to reduce the 2011 actual values of the following rigs:

| Drill Rig Number | Value |
|-------------------------|--------------|
| 926 | \$3,522,380 |
| 408 | \$660,340 |
| 907 | \$123,220 |
| 903 | \$660,340 |
| 513 | \$1,585,060 |

The Mesa County Assessor is directed to change his/her records accordingly.

APPEAL:

If the decision of the Board is against Petitioner, Petitioner may petition the Court of Appeals for judicial review according to the Colorado appellate rules and the provisions of Section 24-4-106(11), C.R.S. (commenced by the filing of a notice of appeal with the Court of Appeals within forty-five days after the date of the service of the final order entered).

If the decision of the Board is against Respondent, Respondent, upon the recommendation of the Board that it either is a matter of statewide concern or has resulted in a significant decrease in the total valuation of the respondent county, may petition the Court of Appeals for judicial review according to the Colorado appellate rules and the provisions of Section 24-4-106(11), C.R.S. (commenced by the filing of a notice of appeal with the Court of Appeals within forty-five days after the date of the service of the final order entered).

In addition, if the decision of the Board is against Respondent, Respondent may petition the Court of Appeals for judicial review of alleged procedural errors or errors of law within thirty days of such decision when Respondent alleges procedural errors or errors of law by the Board.

If the Board does not recommend its decision to be a matter of statewide concern or to have resulted in a significant decrease in the total valuation of the respondent county, Respondent may petition the Court of Appeals for judicial review of such questions within thirty days of such decision.

Section 39-8-108(2), C.R.S.

DATED and MAILED this 8th day of April, 2013.

BOARD OF ASSESSMENT APPEALS

Diane M. DeVries

Diane M. DeVries

Gregg Near

Gregg Near

I hereby certify that this is a true and correct copy of the decision of the Board of Assessment Appeals.

Milla Crichton

Milla Crichton

